# UNIVERSITY OF SASKATCHEWAN

# ACADEMIC EMPLOYEES' PENSION PLAN

## FINANCIAL STATEMENTS

## For the Year Ended December 31, 2006

**Provincial Auditor Saskatchewan**

1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V2

SASKATCHEWAN

Phone: (306) 787-6398
Fax: (306) 787-6383
Web site: www.auditor.sk.ca
Internet E-mail: info@auditor.sk.ca

## AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of net assets available for benefits, accrued pension benefits and surplus of the University of Saskatchewan Academic Employees' Pension Plan as at December 31, 2006 and the statements of changes in net assets available for benefits and changes in accrued pension benefits for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the net assets available for benefits, accrued pension benefits and surplus of the Plan as at December 31, 2006 and the changes in the net assets available for benefits and changes in accrued pension benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
April 5, 2007

Fred Wendel, CMA, CA
Provincial Auditor

**UNIVERSITY OF SASKATCHEWAN**
**ACADEMIC EMPLOYEES' PENSION PLAN**

## STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS, ACCRUED PENSION BENEFITS AND SURPLUS
**As at December 31**

Statement 1

| | 2006 | 2005 |
|---|---|---|
| **Assets** | | |
| Cash | $ 115,678 | $ 95,666 |
| Accrued investment earnings | 272,564 | 321,108 |
| Investments (Note 3): | | |
| Short term notes | 366,572 | 1,446,635 |
| Bonds and debentures | 15,618,524 | 17,330,770 |
| Equities | 22,765,919 | 24,663,462 |
| Pooled funds | 32,786,663 | 29,809,703 |
| | 71,537,678 | 73,250,570 |
| Total assets | 71,925,920 | 73,667,344 |
| **Liabilities** | | |
| Accounts payable | 22,511 | 38,004 |
| Total liabilities | 22,511 | 38,004 |
| Net Assets Available for Benefits (Statement 2) | 71,903,409 | 73,629,340 |
| Accrued Pension Benefits (Statement 3) | 62,006,000 | 66,161,000 |
| Surplus | $ 9,897,409 | $ 7,468,340 |

(See accompanying notes)

**UNIVERSITY OF SASKATCHEWAN**
**ACADEMIC EMPLOYEES' PENSION PLAN**

## STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
**Year Ended December 31**

Statement 2

| | 2006 | 2005 |
|---|---|---|
| Increase in Assets | | |
| Investment income: | | |
| Interest | $ 874,301 | $ 1,019,912 |
| Dividends | 680,675 | 634,742 |
| | 1,554,976 | 1,654,654 |
| Current period change in fair values of investments | 5,607,208 | 4,917,685 |
| Total increase in assets | 7,162,184 | 6,572,339 |
| Decrease in Assets | | |
| Plan expenses (Note 4) | 158,442 | 163,796 |
| Pension benefits paid | 8,729,673 | 9,141,416 |
| Total decrease in assets | 8,888,115 | 9,305,212 |
| Decrease in net assets | (1,725,931) | (2,732,873) |
| Net assets available for benefits at beginning of year | 73,629,340 | 76,362,213 |
| Net assets available for benefits at end of year (to Statement 1) | $ 71,903,409 | $ 73,629,340 |

(See accompanying notes)

**UNIVERSITY OF SASKATCHEWAN**
**ACADEMIC EMPLOYEES' PENSION PLAN**

## STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS
**For the Year Ended December 31**

Statement 3

| | 2006 (Note 5) | 2005 (Note 5) |
|---|---|---|
| Accrued Pension Benefits, beginning of year | $ 66,161,000 | $ 70,190,000 |
| Increase in Accrued Pension Benefits: | | |
| Interest on accrued benefits | 4,300,000 | 4,562,000 |
| Changes in assumptions | 135,000 | 146,000 |
| Experience loss | 419,000 | 697,000 |
| | 4,854,000 | 5,405,000 |
| Decrease in Accrued Pension Benefits: | | |
| Benefits paid with interest | 9,009,000 | 9,434,000 |
| Accrued Pension Benefits, End of Year (to Statement 1) | $ 62,006,000 | $ 66,161,000 |

(See accompanying notes)

**UNIVERSITY OF SASKATCHEWAN**
**ACADEMIC EMPLOYEES' PENSION PLAN**

**NOTES TO FINANCIAL STATEMENTS**
**December 31, 2006**

## 1. Plan Administration

The University of Saskatchewan Academic Employees' Pension Plan (Plan) is closed to new members effective January 1, 1999 following the establishment of the University of Saskatchewan 1999 Academic Pension Plan. The primary purpose of the Plan is now to provide pension benefits for the members in the Plan who retired prior to December 31, 1998.

The Retirees Pension Committee, composed equally of appointees of the Board of Governors and Pensioners, administers the Academic Employees' Pension Plan. The Committee provides recommendations to the Board of Governors in matters of Plan amendments and also maintains liaison with all those concerned with the operations of the Pension Plan, including the Board of Governors, the trustee, the investment advisors, the actuary and the members of the Plan.

Description of the Plan

The following description of the Plan is a summary only. For more complete information, reference should be made to the Plan agreement.

a) General

The members of the Plan are individuals receiving a lifetime or temporary pension from the Plan. The Plan is closed to new members.

b) Pension Benefits

Pension benefits are paid either:

i) for an individual's lifetime with various survivor benefits being payable after death that are unique to each pensioner; or

ii) for a temporary period.

c) Death Benefits

For a member who is deceased after retirement, the surviving beneficiary will be entitled to receive the form of pension elected by the member at the member's retirement date.

d) Plan Improvements

Contractual indexing has expired, however, pensioners may be granted ad hoc increases at the discretion of the Board of Governors.

e) Required Contributions

As the Plan is a closed plan, there are no contributions required for future service accruals.

f) Funding Policy

The University is responsible for any unfunded liabilities or solvency deficiencies that may arise in the future.

## 2. Significant Accounting Policies

These financial statements are prepared on the going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the sponsor and plan members. They are prepared to assist plan members and others in reviewing the activities of the Plan for the fiscal period but they do not portray the funding requirements of the plan or the benefit security of individual plan members. These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following policies are considered significant.

a) Investments

Short-term notes are recorded at cost which approximates market value.

Investments in bonds, debentures and equities are recorded at market values which are determined by reference to closing year end sale prices from recognized security dealers or, in the absence of recorded sales, by reference to closing year end bid and ask prices.

Investments denominated in foreign currency are translated at the exchange rate in effect at year end. Investments and realized gains and/or losses are translated at the exchange rate in effect at the transaction date. Unrealized gains and losses resulting from exchange differences are included in the determination of the change in market value of investments.

Units held in pooled funds are valued at the closing sales prices of the underlying securities as reported by the principal securities exchange on which the underlying securities are traded.

Fair value of investments approximates the market value. Transactions are recorded as of the trade date.

b) Receivables/Payables

Receivables and payables are non-interest bearing and are due or payable within the next year. Due to their immediate or short-term maturity the cost approximates the fair value.

## 3. Investments

The investment objectives of the Plan are to ensure the Plan has sufficient assets to meet future pension obligations and to generate sufficient cash flow to meet pension payments. Due to the long-term horizon of the Plan's liabilities, the Plan takes a long-term investment perspective. The strategy employed to achieve these objectives is to invest cash flows from maturing debentures and investment returns into assets such as money market securities, bonds, Canadian and foreign equities and pooled funds.

a) Interest Rate Risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Plan's assets and liabilities.

The value of the Plan's assets is affected by short-term changes in nominal interest rates. The Plan manages interest rate risk by investing in bonds and debentures with varying years to maturity.

b) Credit Risk

Credit risk arises from the potential for issuers of securities to default on their contractual obligations to the Plan. The Plan limits the credit risk by dealing with issuers that are considered to be high quality. The credit ratings used to describe the securities below are based on the Dominion Bond Rating Service, Standard and Poor's, Moody's Investor Services and Fitch Ratings.

c) Foreign Currency Risk

Foreign currency exposure arises from the Plan holding investments denominated in currencies other than the Canadian Dollar. Fluctuations in the relative value of the Canadian Dollar against these foreign currencies results in a positive or negative effect on the fair value of investments. The Plan manages the foreign currency risk by limiting the Plan's holdings of foreign investments and by diversifying the investment portfolio by country.

d) Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. The Plan's policy is to invest in a diversified portfolio of investments, based on criteria established in the Statement of Investment Policies and Procedures.

Short-term Investments

Short-term investments are comprised of T-Bills, notes and commercial paper with effective interest rate of 4.18% (2005 – 3.36%) and a term to maturity of 365 days or less. The Plan's investment policy states that investments must meet a minimum investment standard of "R1", as rated by a recognized credit rating service.

Bonds and Debentures

The Plan's investment policy states that bonds must meet a minimum quality standard of BBB as rated by a recognized credit rating service. BBB rated bonds cannot exceed 15% of the market value of the bond portfolio.

| | 2006 ($000) | | | | | 2005 ($000) | |
|---|---|---|---|---|---|---|---|
| Years to Maturity | Federal | Provincial | Corporate | Total Market Value | Current Yield | Total Market Value | Current Yield |
| Under 5 | $ 802 | 867 | 3,691 | 5,360 | 3.64% - 6.24% | 6,127 | 3.65% - 6.51% |
| 5 – 10 | 349 | 1,116 | 3,064 | 4,529 | 4.03% - 6.05% | 6,845 | 4.04% - 6.11% |
| Over 10 | 2,315 | 1,552 | 1,863 | 5,730 | 4.51% - 5.71% | 4,359 | 4.49% - 5.72% |
| Market Value | $3,466 | 3,535 | 8,618 | $15,619 | | $17,331 | |

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Equities

The Plan's investment policy allows no one holding to represent more than 12% of the market value of the equity portfolio and no one holding to represent more than 10% of the common stock in any corporation. The average dividend rate is 2.27% (2005 – 2.15%).

| | Market Value ($000) | |
|---|---|---|
| | 2006 | 2005 |
| Common shares | $ 12,039 | $ 13,767 |
| Foreign common shares | 10,727 | 10,897 |
| | $ 22,766 | $ 24,664 |

Pooled Funds

The Plan holds units in pooled funds which have no fixed interest rate and its returns are based on the success of the manager. The Plan's pooled funds are comprised of the Jarislowsky Fraser Special Equity Fund, BGI Universe Bond Index Fund, and Jarislowsky Fraser International Pooled Fund.

Investment in a single pooled fund should not exceed 10% of the market value of that pooled fund.

| | Market Value ($000) | |
|---|---|---|
| | 2006 | 2005 |
| Canadian | $ 21,246 | $ 20,504 |
| Foreign | 11,541 | 9,306 |
| | $ 32,787 | $ 29,810 |

Investment Return

The following is a summary of the Plan's investment performance:

| As of December 31, 2006 | 1 year | 4 year |
|---|---|---|
| Plan Return | 10.8% | 9.0 % |
| Plan Objective | 10.8% | 9.7% |

The Plan's objective for its investment portfolio (return on the benchmark portfolio) has been determined using the actual returns of the market indexes such as the Toronto Stock Exchange Index, Standard & Poor's 500 U.S. Stock Index and the Scotia Capital Universe Bond Index.

## 4. Plan Expenses

| | 2006 | | 2005 |
|---|---|---|---|
| | Budget | Actual | Actual |
| Investment management fees | $68,800 | $63,418 | $73,644 |
| Trustee fees | 33,800 | 36,194 | 36,159 |
| Administration fees | 9,700 | 5,342 | 9,520 |
| Consulting services | 40,000 | 53,488 | 44,473 |
| Total | $152,300 | $158,442 | $163,796 |

## 5. Accrued Pension Benefits

An actuarial valuation of the Plan was performed by Aon Consulting Inc., a firm of consulting actuaries, as at December 31, 2006 and December 31, 2005. The present value of accrued pension benefits was determined using the projected benefit method prorated on service and the best estimate assumptions of management.

The net experience loss of $419,000 during the year was attributable to pensioner mortality.

Significant long-term actuarial assumptions used in the valuation were:

| | 2006 | 2005 |
|---|---|---|
| Interest rate | 6.5% | 6.5% |
| Mortality table | UP 94 projected to 2007 | UP 94 projected to 2006 |

During the year the actuary recommended a change in the mortality assumptions to reflect a more current mortality table. This has resulted in an increase to the accrued pension benefits of $135,000.

The actual rates may vary significantly from the long-term assumptions used. The following illustrates the effect of changing interest rate assumptions by plus/minus 1% from 6.5% and adjusting the mortality assumption so that the average remaining expected payout period is 0.5 years longer/shorter.

| | Long Term Assumptions | | | |
|---|---|---|---|---|
| | Mortality | | Interest | |
| | Plus 0.5 years | Minus 0.5 years | 7.5% | 5.5% |
| (Decrease) Increase in obligation for pension benefits | 2.77% | (3.04)% | (5.41%) | 6.03% |

The pension liability is long term in nature. The Plan has no intention of settling its pension obligation in the near term and there is no market for settling its pension obligations. Therefore, determination of the fair value of the pension liability is not practical.

To protect the Plan against future adverse investment experience, the Pension Plan Agreement, under article XI 5, allows that any surplus which may arise from the operation of the Plan which is not required to meet the actuarial liabilities existing thereunder shall accumulate as a reserve for contingencies.

The assets, including any potential surplus in the Plan, are for the benefit of the members and their beneficiaries. There is no provision that allows the withdrawal of the surplus by the University.

## 6. Related Parties

The Plan is related to the University of Saskatchewan and other pension plans sponsored by the University of Saskatchewan.

The University of Saskatchewan pays for certain administration and consulting expenses. A portion of these expenses, which the University of Saskatchewan incurs, is charged back to the Plan. The expenses charged by the University of Saskatchewan in 2006 were $5,342 (2005 – $9,220).

Other transactions with related parties and amounts due to/from them are described separately in the financial statements and notes thereto.